

FRINGE BENEFITS

FINANCIAL SUMMARY

	FY 2003 EXPENDITURE	FY 2004 APPROPRIATION	FY 2005 REQUEST	GOVERNOR RECOMMENDS FY 2005
Missouri Consolidated Health Care Plan	\$ 254,629,448	\$ 277,184,536	\$ 336,790,154	\$ 331,106,497
Missouri State Employees' Retirement System	166,837,813	185,870,771	185,870,771	209,112,071
OASDHI Taxes	137,344,588	146,094,946	146,094,946	148,048,400
Deferred Compensation	11,517,078	12,370,314	12,370,314	12,370,314
Workers Compensation	17,904,922	18,390,000	18,390,000	18,390,000
Teacher Retirement Contributions	2,728,440	3,580,060	3,580,060	3,580,060
Unemployment Benefits	4,867,225	3,902,701	3,902,701	3,902,701
Other Employer Disbursements	7,573,296	5,594,437	5,594,437	5,594,437
TOTAL	\$ 603,402,810	\$ 652,987,765	\$ 712,593,383	\$ 732,104,480
General Revenue Fund	398,562,945	415,478,524	460,449,228	453,008,926
Federal Funds	103,166,248	120,621,393	129,359,153	141,341,400
Other Funds	101,673,617	116,887,848	122,785,002	137,754,154

POLICY SUMMARY

Governor Holden's budget for Fiscal Year 2005 provides a total of \$732.1 million for employee benefits. Employment benefits are centralized for all state agencies with the exception of retirement and health care benefits for the Highway Patrol and the Missouri Department of Transportation and health insurance for the Department of Conservation. Employee benefits include:

- Retirement
- Health insurance
- Life and long-term disability insurance
- Social security
- Workers' compensation
- Unemployment benefits
- Deferred compensation
- Job-related legal expenses

Missouri Consolidated Health Care Plan (MCHCP)

Medical insurance costs have grown at an average of 15 to 20 percent per year for the past few years. The average amounts that employees pay are increasing at a higher rate than their salaries. But even as individuals see double-digit increases in their health insurance costs, employers are experiencing even larger average increases.

As health care costs skyrocket nationwide, more and more employers are requiring employees to contribute to medical insurance coverage. In many cases, those companies that continue to pay employee premiums have been forced to cut benefits. While this trend has forced many employers to push a bigger percentage of the cost onto employees, the state of Missouri has consistently funded at least 75 percent of the overall cost of employee health care. Since Governor Holden took office, he has approved over \$100 million, including nearly \$70 million general revenue, in increased funding for MCHCP to hold down costs to state employees and their families.

MCHCP provides pharmacy benefits to most state employees, retirees, and their dependents, covering more than 100,000 lives. Pharmacy benefit inflation is a significant driver of health care costs for MCHCP and for employee benefit plans in general. With national inflation rates of 19 percent and 16 percent for 2002 and 2003 respectively, the MCHCP has stayed below the trend by making significant changes in the management and structure of the pharmacy benefits:

- Pharmacy benefits were carved out from six health plans and MCHCP entered into a single contract with Express Scripts to consolidate benefit management for all state members.
- A uniform, three-tiered co-payment structure was created – \$10 generic, \$25 preferred brand, \$40 non-preferred brand.
- A "mandatory generic" program was instituted. When an equivalent generic is available, the member must substitute the generic brand or pay the actual cost difference.
- Manufacturer rebates were returned to the MCHCP rather than to the health plans. This produced a net seven percent savings to the program.
- Since 2001, the MCHCP has participated as a charter member of a seven-state joint purchasing workgroup, referred to as Rx Issuing State (RxIS), to assist in containing pharmacy costs.

FRINGE BENEFITS

POLICY SUMMARY (Continued)

To continue providing health insurance for state employees and retirees, the Governor recommends:

- \$44.5 million for continuing benefits for calendar year 2004 and expected increases for the first half of calendar year 2005, including \$29 million general revenue.
- \$5.6 million to implement SB 248 (2003), which increased the state's contribution for health care for certain early retirees, including \$3.7 million general revenue.
- \$3.9 million to increase the state subsidy for the employee/spouse and employee/family categories to 83%, including \$2.5 million general revenue.

Missouri State Employees' Retirement System (MOSERS)

MOSERS was established September 1, 1957, to provide retirement, survivor and disability benefits, and life insurance benefits to its members. MOSERS administers retirement benefits for most state employees, including members of the General Assembly, elected state officials, administrative law judges, legal advisors, and judges. MOSERS is responsible for administering the law in accordance with the expressed intent of the Missouri General Assembly and bears a fiduciary obligation to the state employees who are its members and beneficiaries.

As of June 30, 2003, MOSERS was one of the 200 largest defined benefit plans in the United States with total assets of just over \$5 billion. According to the Independent Consultants Cooperative (ICC), the fund generated a return of seven percent net of expenses for the year, placing MOSERS' investment return in the top nine percent among public pension funds with assets in excess of \$1 billion. This return also compares favorably to the return that could have been achieved by investing passively in the market (otherwise known as the "policy benchmark"). Effective implementation of the new investment strategy added one percent to the total return. Over the three years ended June 30, 2003, the MOSERS' investment portfolio returned negative six tenths of a percent, slightly negative on an absolute basis, but remarkable when compared to returns experienced by broad equity markets of negative 10.5 percent. Because the MOSERS' Board pursued a more diverse investment strategy, MOSERS has been able to generate a return of four percent per annum in excess of the return of the policy benchmark. In real dollars, these results have produced well over \$600 million for the fund that would not have been earned had the new investment strategy not been implemented.

To continue providing retirement benefits, the Governor recommends:

- \$21.2 million to increase the contribution rate as a percentage of payroll from 9.35 percent to 10.64 percent, including \$13 million general revenue.
- \$5.7 million for increased costs to the state for retirement benefits due to pay plan, including \$3.9 million general revenue.

FRINGE BENEFITS

MISSOURI CONSOLIDATED HEALTH CARE PLAN

The Missouri Consolidated Health Care Plan administers health care benefits for state employees. In 1995, municipalities and other public entities were allowed to join the Missouri Consolidated Health Care Plan as well, building a larger pool of members and greater bargaining power for lower cost medical services.

Fiscal Year 2005 Governor's Recommendations

- \$44,506,464 to continue benefits for calendar year 2004 and expected increases for the first half of calendar year 2005, including \$28,953,885 general revenue.
- \$11,315,617 federal and other funds to allocate the cost of retiree health care.
- \$5,616,373 to implement SB 248 (2003), which increased the state's contribution for health care for certain retirees, including \$3,653,759 general revenue.
- \$3,880,712 to increase the state subsidy for the employee/spouse and employee/family categories to 83 percent, including \$2,524,609 general revenue.
- \$2,716,000 for new staff statewide, including \$933,000 general revenue.
- (\$11,315,617) core reduction from the Fiscal Year 2004 appropriation level due to the allocation of retiree health care costs.
- (\$2,797,588) core reduction from the Fiscal Year 2004 appropriation level.

CONTRIBUTION TO MISSOURI STATE EMPLOYEES' RETIREMENT SYSTEM

The state of Missouri provides a fully funded retirement program for employees through a contribution of a specified percentage of members' wages to the Missouri State Employees' Retirement System. Included in the state's contribution is a payment per month per eligible employee to the Missouri State Employees' Benefit Plan and a payment of long-term disability premiums.

Fiscal Year 2005 Governor's Recommendation

- \$21,167,500 to increase the state contribution rate as a percentage of payroll from 9.35 percent to 10.64 percent, including \$12,955,600 general revenue.
- \$5,668,700 for increased costs to the state for retirement benefits due to pay plan, including \$3,888,900 general revenue.
- \$1,669,000 for new staff statewide, including \$532,000 general revenue.
- (\$5,263,900) core reduction from the Fiscal Year 2004 appropriation level, including (\$2,634,800) general revenue.

CONTRIBUTION TO OASDHI TAXES

The state of Missouri pays the employer's share of federal Old Age and Survivors Disability and Health Insurance contributions on the salaries of all state employees, with the exception of employees of the state universities and four-year colleges. These funds are transferred to a contribution fund for matching payments to the Social Security Administration.

Fiscal Year 2005 Governor's Recommendations

- \$4,032,200 for increased costs to the state for social security benefits due to pay plan, including \$2,308,600 general revenue.
- \$1,233,600 for new staff statewide, including \$308,000 general revenue.
- (\$3,312,346) core reduction from the Fiscal Year 2004 appropriation level, including (\$1,779,946) general revenue.

DEFERRED COMPENSATION PROGRAM

The Missouri State Public Employees Deferred Compensation Commission, as established by Sections 105.900 to 105.925, RSMo, provides indirect compensation to state employees in the form of tax-deferred income. Section 105.927 allows the state to credit \$25.00 per month to qualified participants in the plan. The monies transferred must be paid to the various deferred compensation plans. Matching payments were made available as of January 1, 1996.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

FRINGE BENEFITS

WORKERS COMPENSATION

The state of Missouri is responsible for payment of workers' compensation benefits to injured state employees in accordance with Chapter 287, RSMo. The payment of workers' compensation benefits for all state employees, excluding the Department of Transportation, the Missouri State Highway Patrol, and the University of Missouri system, is covered under this program and is administered by the Office of Administration's Division of General Services. Payments made by general revenue on behalf of employees paid from other funding sources are transferred from these funds back to general revenue. As a workers' compensation self-insurer, the state pays its workers' compensation tax and second injury fund assessments based on billings received from the Department of Revenue and the Division of Workers' Compensation.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

TEACHER RETIREMENT CONTRIBUTIONS

Section 104.342, RSMo, has been revised to provide that the Commissioner of Administration shall requisition monthly and certify the payment of contributions to the Public School Retirement System (PSRS). Authority to transfer and expend these monies is required to comply with statutory provisions. Certified teachers involved are employed by the Department of Elementary and Secondary Education and remain members of the PSRS.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

DISBURSEMENT FOR UNEMPLOYMENT BENEFITS

The state of Missouri, as a governmental entity, is required to pay contributions to the Division of Employment Security as specified by law so that unemployment claims may be paid to former employees. A governmental entity may elect to either pay contributions in advance based on a statutory formula or to reimburse the Division of Employment Security for actual claims paid out to former employees. The state of Missouri utilizes the reimbursement for actual claims paid option. By using this deferred method of payment and one central appropriation, the state simplifies the administration of unemployment benefits.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

OTHER EMPLOYER DISBURSEMENTS

VOLUNTARY LIFE INSURANCE

State employees may opt to withhold funds for voluntary life insurance. This appropriation provides expenditure authority to distribute the monies withheld to the various life insurance companies as designated by the employees.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

CAFETERIA PLAN TRANSFER

The state offers a tax reduction plan for state employees. The federal government requires the state to provide a sufficient balance in the medical expenses category for timely reimbursements to plan participants.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

FRINGE BENEFITS

OTHER EMPLOYER DISBURSEMENTS (Continued)

HUMAN RESOURCES CONTINGENCY FUND TRANSFER

This transfer section has been added to ensure that payroll checks submitted for payment against accounts with temporary allotment or fund cash flow problems can be generated within the time constraints of pay period processing.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.

LEGAL EXPENSE FUND

The state of Missouri, its agencies, officials, appointees, and employees are exposed to liability in the conduct of official state business. The Office of Administration, in association with the Attorney General's Office, seeks to provide a means to fund claims and judgments against these individuals and agencies in the most cost effective manner possible. The State Legal Expense Fund was created to pay claims against the state, its officers, and employees as provided under Section 105.711, RSMo.

Fiscal Year 2005 Governor's Recommendations

Continue funding at the current level.